

**VIEWS OF THE NATIONAL GOVERNORS'  
ASSOCIATION ON MAJOR LEGISLATIVE PROPOSALS**

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**HEARING**  
BEFORE THE  
**COMMITTEE ON WAYS AND MEANS**  
**HOUSE OF REPRESENTATIVES**  
**ONE HUNDREDTH CONGRESS**

FIRST SESSION

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FEBRUARY 24, 1987

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**Serial 100-4**

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Printed for the use of the Committee on Ways and Means



U.S. GOVERNMENT PRINTING OFFICE

74-578

WASHINGTON : 1987

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For sale by the Superintendent of Documents, Congressional Sales Office  
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H781-21

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**VIEWS OF THE NATIONAL GOVERNORS' ASSO-  
CIATION ON MAJOR LEGISLATIVE PROPOS-  
ALS**

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**TUESDAY, FEBRUARY 24, 1987**

**HOUSE OF REPRESENTATIVES,  
COMMITTEE ON WAYS AND MEANS,  
*Washington, DC.***

The committee met, pursuant to notice, at 2:32 p.m., in room 1101, Longworth House Office Building, Hon. Dan Rostenkowski (chairman of the committee) presiding.

[The press release announcing the hearing follows:]

(1)

FOR IMMEDIATE RELEASE  
WEDNESDAY, FEBRUARY 11, 1987

PRESS RELEASE #8  
COMMITTEE ON WAYS AND MEANS  
U.S. HOUSE OF REPRESENTATIVES  
1102 LONGWORTH HOUSE OFFICE BLDG.  
WASHINGTON, D.C. 20515  
TELEPHONE: (202) 225-3625

THE HONORABLE DAN ROSTENKOWSKI (D., ILL.), CHAIRMAN  
COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES  
ANNOUNCES A HEARING AT WHICH A PANEL OF GOVERNORS REPRESENTATING  
THE NATIONAL GOVERNORS' ASSOCIATION WILL PRESENT THEIR VIEWS  
ON MAJOR LEGISLATIVE PROPOSALS BEFORE THE COMMITTEE ON WAYS AND MEANS

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The Honorable Dan Rostenkowski (D., Ill.), Chairman, Committee on Ways and Means, U.S. House of Representatives, today announced that a public hearing at which a panel of governors representing the National Governors' Association will present their views on major legislative proposals before the Committee on Ways and Means. The hearing will be held on Tuesday, February 24, 1987, beginning at 2:30 p.m., in the Committee's main hearing room, 1100 Longworth House Office Building.

The governors scheduled to testify include the following:

The Honorable Bill Clinton, Governor of Arkansas, Chairman  
of the National Governors' Association

The Honorable John H. Sununu, Governor of New Hampshire,  
Vice-Chairman of the National Governors' Association

The Honorable William A. O'Neill, Governor of Connecticut

The Honorable Michael N. Castle, Governor of Delaware

The Honorable James R. Thompson, Governor of Illinois

The Honorable Terry Branstad, Governor of Iowa

The Honorable Michael S. Dukakis, Governor of Massachusetts

The Honorable Richard Celeste, Governor of Ohio

In announcing the hearing, Chairman Rostenkowski said, "There is a wide range of issues pending before the Committee on Ways and Means that could have a significant impact on the States. The Committee will soon be considering trade reform, welfare reform and catastrophic health insurance. It is important for the Committee to hear the views of our Nation's governors as we examine various legislative proposals that address these issues. As we examine and develop legislation, we must be mindful of the Federal-State partnership that is essential to the sound administration of so many of the laws we enact. The Governors' testimony will highlight that partnership."

\*\*\*\*\*

Chairman ROSTENKOWSKI. The committee will come to order. Will our guests please find seats. Let me say at the outset, Your Excellencies, that it is truly a rare privilege for us to be adorned with such prominence, but I know that we all have a common purpose, and I must say it is a privilege for John Duncan and I to host you at this hearing.

I think that we on the Ways and Means Committee are of an opinion that when we write legislation, if we can get a bipartisan effort, the legislation we produce is probably the most effective legislation because we have a bipartisan view. I don't know of any legislation that comes out of this committee by one vote that is successful on the floor of the House of Representatives. It takes more than just the one-vote margin for victory.

So I welcome you and I am pleased that you are taking time out of your busy schedules to join us. I understand your testimony will center around the National Governors' Association theme of making America work, productive people, productive policies. This same theme will be central to much of the committee's work this year, from trade reform to welfare reform. A major goal of the committee will be to enact policies to enhance the productivity of individuals and of the entire country. It is important for the committee to hear the views of our Nation's Governors as we examine various legislative proposals that address these issues. Sound legislation must be mindful of the partnership between the Federal and the State Governments.

The Governors' testimony will highlight, I am sure, that partnership.

Governor Clinton, I understand that you will be delivering the formal testimony of the association. Following your testimony, I will recognize your colleagues in the order in which they were listed in the testimony you submitted for brief remarks on selected portions of your statement. This procedure will allow us the greatest amount of time for questions by the committee.

Before I yield to you, Governor, I would like to yield to my ranking member, John Duncan of Tennessee.

Mr. DUNCAN. Thank you, Mr. Chairman. I would also like to welcome you gentlemen. My grandmother used to have an expression. She said, "If you can't amount to anything, try to associate with people who have." She would be proud that I was here with you folks today. We are delighted to have this very illustrious group of leaders of our great country.

We are pleased to have you here because I think this year by working together perhaps the States will be involved in whatever legislation we bring to fruition, I guess more so than any other piece of legislation we have ever had, particularly, I think, in the field of welfare. I am certainly interested in your recommendations, and I know all the other members on the committee are, and I look forward to your comments and certainly your guidance.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Does any other member wish to be recognized?

Governors, we look forward to your testimony and we look forward to working with you in the coming months.

Governor Clinton.

STATEMENT OF HON. BILL CLINTON, GOVERNOR OF ARKANSAS,  
AND CHAIRMAN, NATIONAL GOVERNORS' ASSOCIATION

Governor CLINTON. Thank you very much. Mr. Chairman and distinguished members of that committee, I felt right at home when I heard all those compliments coming from the people who have both the ways and the means, and we so often have neither. We are just glad to be in your presence today and grateful for your concern and your willingness to listen to us.

I want to begin my comments by saying how very much I appreciate, not just as a Governor but as a citizen, the outstanding and, in some ways, astonishing work that you, Mr. Chairman, and your committee did on tax reform last year. Whether people agreed with every provision of it or not, you proved one thing conclusively, and that is that we can make our Government work again, and we can make things happen again, and that is what the Governors are interested in.

I would like to not go over our printed testimony. It shows what our position is with reference to the trade bill that is filed and a lot of other things. But, instead, I would like to essentially summarize where we are coming from, what our objectives are and, in particular, what is in our proposed welfare reform change, and then let my colleagues say whatever they might like to say. I will be as brief as I can.

For the last 3 or 4 years, we have worked as hard as we knew how, Republicans and Democrats alike, individually and collectively to try to respond to the challenge of education and the need to improve education throughout this country from kindergarten, indeed from the preschool years right through college and post-graduate work. In virtually every State in this country there have been dramatic improvements in that area. We have financed most of it on our own and, in some areas, with cutbacks from the Federal Government.

When I became chairman of this association last summer, I asked myself a rather simple question: What if we do all these things we are supposed to do in education? What contributions can the Governors still make to the productivity of this country and to returning real economic growth to all the States?

Two answers came rather quickly and clearly. One is that we have to do more to make our people productive. You can have the best school system in the country, and if you recognize the fact that 75 percent of the people in the work force in the year 2000 are already there now and, therefore, won't be touched by our educational reforms directly and that 25 percent of the kids of school age in school now will drop out of school, it is obvious that we have to do more than simply improve what goes on within the educational institutions of this country.

That led to what we call our barriers project—our efforts at prevention to help the American people overcome the disabilities that keep so many of them from becoming productive—welfare dependency, drug and alcohol abuse, teen pregnancy, school dropouts, and adult illiteracy.

At this session of the Governors' meeting, we focused on those barriers and what the States could do independently to help our people overcome them.

The second thing we had to face was that even if we did a very good job of helping people overcome the barriers and a very fine job in education, if there were no jobs we would be holding out a false hope to all of the people we were urging to take responsibility for their futures.

So, we determined through the leadership of the task force on jobs, growth and competitiveness, chaired by the Governors of Massachusetts, Iowa, and Virginia, to try to determine what we could do on our own to help this country to be more competitive and to support your work.

Within that context, it is also apparent that you set the parameters within which we operate—the outlines which we have filled in the blanks on. The most important thing that we came to talk about today is our new policy on welfare reform.

About a year ago, Governor Castle of Delaware and I began to cochair a task force on this subject. When I became chairman, I asked him to take it over and he served admirably and hammered out a bipartisan resolution that we hope offers the best hope for real meaningful change in the welfare reform system we had in years.

The essential components of our policy, which was just adopted a couple of hours ago, are these.

No. 1, we think every welfare recipient in the country out to have to sign a simple, clear contract, setting forth not only the recipient's right to receive benefits but responsibilities that go along with those benefits to pursue a course toward independence.

No. 2, the contract and the recipient should have as a support a casework manager who is responsible for seeing that the terms of the contract are fulfilled not only by the recipient but by the State.

No. 3, that for all single people and mothers with children 3 years old or older, a part of every contract must be an enforceable commitment to pursue an individualized course of education, training, and work leading to independence.

We visited the President in the White House on Monday and, somewhat to my surprise, he agreed to support that basic outline, knowing presumably it would require some more funding investment in education and training and then some transitional expenses in child care and extended medical coverage for people going into jobs with low incomes and no medical insurance.

Senator Domenici was with us yesterday and he said he thought this program was so important that he would be willing to try to find the extra revenues needed to pay for it, working on the Senate side and, of course, your distinguished Speaker was there this morning and endorsed not only the general outlines of our proposal but told us he was on a faster track than we might have hoped to be.

Then, just a few minutes ago, I was privileged to meet with your chairman of the Subcommittee on Public Assistance, Congressman Ford, and with Senator Moynihan. They agreed to try to come up with a bill which we could jointly push with you to ultimate passage.

So, I think we have done everything we know to do to work in an appropriate fashion with you.

The one thing that I want to say about this is that it is more important to me personally than anything else is that this proposal changes the value system on which welfare in America rests. It changes the system from being primarily an income maintenance system that makes a show of putting people to work by spending 1 percent of total expenditures on education, training, and work into a meaningful investment system in America's future and the future individual lives of all of the people on welfare and their children. Even if they don't all get jobs right away, the obligation to pursue a course of independence and to signal that sense to the children of the recipients offers more promise in my view in breaking the cycle of welfare dependency and turning the whole attitude that people have about this problem around than anything we have been able to do in a long time.

A lot of people on this committee have been working on this problem and know more about it than most of us do—Congresswoman Kennelly and Congressman Levin and many others.

We are here to help. We want your help. We want you to guide us. We want you to tell us what to do. We want to work with you to see meaningful welfare reform passed in this Congress and every one of us, Republican and Democrat, is committed to that objective.

Thank you very much.

[The statement follows:]



National Governors' Association

**Bill Clinton**  
Governor of Arkansas  
Chairman

**Raymond C. Scheppach**  
Executive Director

Testimony of  
the Honorable Bill Clinton  
Chairman of  
the National Governors' Association

together with

Governor John H. Sununu, New Hampshire  
Vice Chairman, National Governors' Association

Governor James R. Thompson, Illinois  
Member of the Executive Committee  
Past Chairman, National Governors' Association

Governor Terry E. Branstad, Iowa  
Chair, Committee on Agriculture

Governor Michael S. Dukakis, Massachusetts  
Chair, Committee on Economic Development and Technological Innovation

Governor Michael N. Castle, Delaware  
Chair, Committee on Human Resources

Governor Richard F. Gelesse, Ohio  
Chair, Subcommittee on Employment and Training

Governor Martha Layne Collins, Kentucky  
Chair, Task Force on Alcohol and Drug Abuse Prevention

before the  
Committee on Ways and Means  
U.S. House of Representatives  
February 24, 1987

### Introduction

Mr. Chairman and members of the committee, this is the first opportunity that most of us have had to thank you in person for the tremendous job you did last year in leading Congress in passage of the most significant tax reform legislation in forty years. You are to be heartily congratulated. You in particular, Mr. Chairman, were most courageous in taking up the President's challenge and forging passage of a House bill when most said it couldn't be done. Your leadership made tax reform possible.

Mr. Chairman, the leadership of the National Governors' Association wants also to thank you for your desire to hear from the Governors. We appreciate the special hearings and sessions you had with the Governors on tax reform, and once again you have given us an opportunity to express our concerns on major issues now before the Ways and Means Committee.

### Overview

Today, we would like to focus on welfare prevention and reform, dislocated workers, job creation, education, economic growth, and competitiveness. The Governors see these issues as interdependent, and progress must be made on all to be successful on any. There will be no public funds for education and welfare reform if our nation is not competitive and does not maintain steady growth. Also, there will be no long-term growth if millions of Americans are undereducated, ill, unproductive, and living in or near poverty.

### Economic Disruptions

Over the last decade, we have been pulled into a world economy that we no longer dominate, and for which we are still largely unprepared. While the percentage of our gross national product directly tied to trade has grown to 13 percent, we have not maintained our share of world export. Newly emerging economies have captured many of our former markets by providing quality products at labor costs we can't hope to match.

Paralleling these developments have been deep and troubling changes in the fabric of American society: a dramatic rise in the number of single-parent households; latchkey children; huge numbers of young women and children in poverty; millions of adults so illiterate they are unemployable; and high rates of welfare dependency, teen pregnancy, school dropouts, and alcohol and drug abuse. Unless we can do more with the economic and social problems that limit the ability of our people to work, we cannot preserve the American dream as we know it. We must face squarely our responsibility to make Americans more competitive and to reverse the tide of lost human potential.

### Productive People, Productive Policies

As Governors, we are taking up these responsibilities by working closely on six task forces that are tied together, by design, so that we can collectively tackle both the economic barriers and social barriers to our productivity as a nation and our achievement as individuals. We believe that the theme of our major year-long initiative -- "Making America Work: Productive People, Productive Policies" -- reflects our commitment to solving the problems that economic and social changes have brought to America over the last two decades.

We have created as part of this initiative the Task Force on Jobs, Growth, and Competitiveness. It will concentrate on the barriers to productivity and growth by developing state actions plans for local and regional revitalization. The work of this task force will help us recognize the very real differences among our regions and take special account of the terrible crises in the rural heartland.

Most Governors already spend lots of time on economic development. We are all more sophisticated than we used to be in our efforts to generate jobs. But we still have much to do to develop local and regional strategies that are really adequate for the competitive challenge we face. Of course, there must be debate about what national policies are needed to make every state and region competitive, but, as Governors, we will emphasize policies that will help us to help ourselves.

Also -- and this is perhaps most important -- we have set up five task forces to deal with the major barriers to work. The Welfare Prevention Task Force has already determined that investing more heavily and systematically in prevention and early intervention could begin to ease problems before they demand the expensive solutions associated with the country's current welfare system.

The other four task forces concentrate on barriers that were outlined in the welfare prevention plan, but which effect particular groups in the population. The Task Force on Adult Literacy has a special emphasis on getting all of us to focus on the problems of illiterate adults and examine projects throughout the country that are working to attack adult illiteracy. The Task Force on Teen Pregnancy will build its work in part on documents published by the Children's Defense Fund. The Task Force on School Dropouts will work with the Education Commission of the States. The Task Force on Alcohol and Drug Abuse Prevention will help us move aggressively to reduce the demand for deadly drugs.

These five task forces will develop plans that involve all states in bringing down the barriers to productive lives. We all say we want to promote work, not welfare; independence, not dependence. Most of us have done some things toward that end. Now is the time for all of us to do more.

In dealing with these issues, the Governors have recommendations that involve many committees of Congress. Today, we will concentrate on those issues of direct concern to the Ways and Means Committee, but we are willing to discuss any issue you wish to raise. Our major issues today will be welfare reform, dislocated worker assistance, trade and competition, and a few tax issues.

#### Welfare Reform

From the work of our Welfare Prevention Task Force has come a specific policy recommendation, adopted this day by the association, to reform our existing welfare system. Our policy focuses on education, training, and employment for the families now dependent on the welfare system, along with a decent living standard with which these families can support their children while they strive for self-sufficiency. Breaking the deadening burden of dependence for poor children and their families not only is the humane thing to do, it is critical to the success of any long-term economic development strategy.

The key components of our policy include:

- o A binding contractual agreement between the recipient and the government, setting out the rights and responsibilities of both parties. The agreement would require recipients to strive for self-sufficiency in return for benefits and the government to provide adequate support in return for those efforts, including income, education and training, child care, medical care, and job placement.
- o A requirement that all recipients of cash assistance with children age three or older participate in a work program.
- o Flexible work programs designed by the states. These programs could include remedial education, training, and job search and placement.
- o An enhanced case management system, which would provide each welfare recipient with a caseworker who would be a partner in the march toward self-sufficiency, helping to develop an individualized program, then making sure it is followed.
- o As a long-range goal, a new cash assistance program would be implemented. It would be based on a national formula reflecting the actual cost of living within each state. A consistent percentage of each state's family living standard would be paid jointly by federal and state government.

These components, taken together, represent a new and better approach to welfare reform. It combines the states' unique capacity to develop creative solutions to the problem, and the federal government's ability and responsibility to set national standards. It reflects the importance of attacking the causes of welfare. We focus on prevention, as well as intervention.

The Governors' welfare reform policy turns the present welfare system, which is primarily an income assistance program with a small jobs component, into a strong jobs program with income assistance as a backup. This is a very different orientation from our current system. Our proposal will not only provide the real tools and opportunity for welfare-dependent people to move permanently toward self-sufficiency, but it will fundamentally alter the values of its participants.

How can we afford to implement, at the national level, the kind of emphasis on training, education, and ancillary services contemplated by the Governors' proposal? Our policy recognizes the potential for increased costs to our state and federal government initially. However, it is instructive to note that federal spending devoted specifically to the training and placement of welfare recipients represents less than 1 percent of the amount currently spent for AFDC benefits. We say we believe in economic independence, not dependence. If we want to do something about it we must allocate some of our resources to invest in our most important building block -- our people.

#### Worker Adjustment

Our concerns do not stop with the welfare population. If we are to continue our goals as compassionate people in a vigorous, growing economy, we must deal with a full continuum of problems and solutions and we must allocate our resources wisely along that continuum. The national economy and the American workers now operate in an environment where change is the norm. Any system developed to deal with the effects of change must be designed to facilitate transition rather than inhibit it. That principle must be applied to all of our major social systems and structures from welfare reform to worker adjustment policies to the investment we make in our future in the form of jobs, growth, and competitiveness.

In today's rapidly changing environment, the traditional view that one particular job will be a lifelong endeavor is unrealistic. The Bureau of Labor Statistics (BLS) reports that about 10.8 million people lost jobs between 1979-1985. Of that total, 5.1 million workers were "displaced."

Job change is demanded by our new competitive environment as we adjust to technological advances and the internationalization of the economy. We must develop a system in which change is anticipated, and in which it is recognized as a hallmark of a vital economy. We must squarely address the issue of adapting to change in order to benefit from the opportunities it provides.

One of the most pressing challenges is to assist workers who are threatened with job loss because these workers are the "front line" in the process of change. In responding to this challenge, we must address the human needs of workers as they move from job to job, without unduly interfering in the dynamics of change.

Just this morning, the Governors adopted a worker adjustment policy which outlines the following strategy:

- o Governors should have discretionary authority to develop programs to meet the needs of their states.
- o The definition of dislocated worker should be broad enough to include all dislocated workers, including farmers unemployment insurance recipients as well as those who have exhausted their benefits, potentially dislocated workers, and other structurally unemployed individuals.
- o Labor and management cooperation should be strengthened.

- o Services available should include educational services, training alternatives, job search assistance support services, and income assistance.
- o No presumptive delivery system should be mandated.
- o Programs to help prevent job loss should be allowed.
- o Funds should be targeted to more accurately reflect total dislocation.

The federal government must assist states by collecting and disseminating information on local labor markets, industrial growth and decline, and other data that will help states anticipate and manage change.

The problems facing most of America's heartland is not just a decline in farming, but rather the transformation of the entire economic and social systems of communities -- and only a few in positive and productive ways. The problems of these communities are under the jurisdiction of other committees of the House, but there is no question that this committee is a definite part of trade and competitive measures, as well as reform of income assistance programs. The Governors urge the Ways and Means Committee to investigate how it can assist the states and individuals of rural America. Farmers should be eligible for dislocated workers' assistance and retraining, some form of tax credit for non-farm business enterprises in targeted rural areas would help, a national job bank, more pension portability, and certainly agriculture must be addressed in major trade legislation.

Adapting to change will require more cooperation of government and the private sector to foster transition to a more competitive economy.

#### Trade and Competition

There are some major provisions of the omnibus trade bill (H.R. 3) that the National Governors' Association has not addressed, such as the extent to which unfair trade practices should be countered, the protection of intellectual property rights, and patent processes. NGA supports provisions that would:

1. Assist, retrain and employ workers displaced by foreign competition, including farmers, selected industries, such as oil, and those who have exhausted their unemployment insurance benefits; grants to states for literacy training, vocational education, math, science, and foreign language education.
2. Provide more state-federal marketing and export of products, especially agriculture products.
3. Provide state-specific trade data on imports and exports that can be used for market development.
4. Increase coordination of expanded federal research and development, with ongoing research and development work of state universities, including more gubernatorial representation on national research coordinating councils.

Through the new Task Force on Jobs, Growth and Competitiveness, the Governors are developing state action plans to help make the United States economy more competitive. The major focus of this task force will be on:

1. How to make our education and job training systems more effective.
2. How to accelerate the dissemination of scientific knowledge and innovation throughout the private sector. This would also include university/business linkages and other similar activities.
3. How to develop better labor-management relations to enhance productivity. The states can assist in developing and disseminating information on new approaches and new structures to organizing production.

While the states need to lead the way in these areas, it is important that the federal government maintain its financial commitment, and provide states with more flexibility to tailor these programs effectively.

#### Selected Tax Matters

Mail Order Tax Exemption. The National Governors' Association is increasing its efforts for congressional action that would require mail-order firms to collect state sales taxes from out-of-state purchasers. Few taxes would be paid without some form of withholding. The rapid expansion of mail-order sales, toll-free phone numbers, and television advertising is undermining state tax enforcement and the profits of many small retail businesses, resulting in an estimated loss in state revenues of more than \$1.5 billion annually. NGA strongly supports the efforts of Rep. Jack Brooks and others to enact corrective legislation.

The National Governors' Association opposes the administration's proposals to eliminate the state and local government exemption from federal gasoline and fuel taxes. This would cost us more than \$500 million annually, primarily in the budgets of education and law enforcement, just when we are undertaking major education reforms and expanding much-needed efforts for drug and alcohol prevention. We urge the Ways and Means Committee to reject the proposal.

NGA has no position on extending the Medicare tax to all state and local employees. This would affect five states directly and most school districts. It must not be forgotten, however, that extension of this tax creates an increased tax somewhere else. At a minimum, this new tax should be phased-in if enacted.

Airport Trust Fund Tax. Reauthorization of the Airport and Airway Trust Fund and the user fees that support the airport improvement program is a priority this year for NGA. The Governors are concerned with growing capacity problems at the nation's more congested airports and seek to enhance the development potential of medium-size airports. The legislation should encourage a gradual drawdown of the \$4 billion surplus that continues to build in the trust fund, with funding dedicated to improvements in the airport and airway system. The importance of aviation to industrial and community development and the proven capacity of the states to administer airport programs in a cost-effective manner are convincing reasons for establishing a block grant for state administration of all but the largest professionally-managed airports.

#### Conclusion

The topic of U.S. competitiveness covers every one of the specific issues listed above. At a minimum, it involves many solutions, not one, or even a few. To make a national emphasis of this magnitude work, it will require new federal, state, and private partnerships that are not now in place. Federal and state departments and agencies with multiple programs and services will have to become much more cooperative and flexible. State laws will have to be changed to permit more public-private cooperation. Welfare reform, rural economic diversification, and new forms of research and development will demand joint action of many separate programs, congressional committees, and state agencies. In the American form of government, it is the Governor of each state, in most cases, who is legally charged with bringing about this coordination for effective intergovernmental action. But to do this we must have the legislative flexibility.

The key to success will be a renewed commitment to flexibility and trust in the design of new approaches to improve U.S. competitiveness. If states don't have the flexibility to package the best solution, we will waste needed funds and resources and still not accomplish our tasks.

As Governors, we appreciate the chairman of the committee for inviting our comments and suggestions.

Chairman ROSTENKOWSKI. Thank you. Governor Sununu.

**STATEMENT OF HON. JOHN H. SUNUNU, GOVERNOR OF NEW HAMPSHIRE, AND VICE CHAIRMAN, NATIONAL GOVERNORS' ASSOCIATION**

Governor SUNUNU. Thank you very much, Mr. Chairman, and members of the committee.

I do appreciate the chance to visit with you with my colleagues to talk about what the Governors have focused on these past few months as one of the principal items, if not the principal item, on our agenda.

We recognize that welfare reform has been talked about and addressed in the past, not necessarily with great results. We hope by virtue of the almost unanimous support that the NGA, the Governors of the 50 States have provided to the general policy statement before you on welfare reform that we might be able to help you coalesce the support that would provide for legislation to deal with an issue that we believe is No. 1 on the agenda for most of the Americans.

Certainly the focus that Governor Clinton talked about, a system which creates dependence to one which creates opportunity for our citizens is the heart and soul of what we are asking you to look at.

I would just ask you to emphasize one other aspect of this. Certainly the question of goals and standards and requirements are going to be crucial in your evaluation and the determinations you make for legislation.

I ask that you recognize that in giving States flexibility and in giving States opportunities to tailor programs to meet both specific needs within the States and to take advantage of opportunities that exist by virtue of the differences that are really the strength of this country, those differences from State to State, we are going to give this program the maximum chance for success. I would urge as you look at those requirements that you want to establish, the standards that you want to look at that you do it in the most general terms, in terms of performance standards, in terms of goals to be achieved, in terms of generalized objectives and give us the opportunity to make the most cost effective programs we can within our own States.

I want you to realize that both the Republican and Democratic Governors looked at this policy and felt very, very strongly that we had come up with a common ground that we could endorse to you. If there is anything we can do to help as you go through your deliberations, we certainly are available to assist. Thank you very much for the chance to come before you.

Chairman ROSTENKOWSKI. Thank you, Governor.

Governor Thompson, I know this might look like cross-purposes, but at 6 o'clock this morning the Governor of the great State of Illinois and I had different views on what was happening in Chicago because we are both citizens of it. But we will know tonight about 7 o'clock just where the city of Chicago is aimed.

Governor Thompson, welcome to Washington.

STATEMENT OF HON. JAMES R. THOMPSON, GOVERNOR OF ILLINOIS, AND MEMBER OF EXECUTIVE COMMITTEE AND PAST CHAIRMAN, NATIONAL GOVERNORS' CONFERENCE

Governor THOMPSON. Thank you, Mr. Chairman. I am not sure our views are as disparate as one might assume.

Mr. Chairman, it is a privilege for me to return to testify before the House Ways and Means Committee and to note with pride in front of my colleagues that both the chairman of the House Ways and Means Committee and the senior member of the minority side of the aisle come from my State, and I count them as personal friends as well as political associates from the great State of Illinois.

I come to speak for just a moment on a fairly narrow issue, but I am available for any of your questions on any of the issues the Governors will discuss today.

In 1967, the Supreme Court of the United States decided a case originating in our State, *National Bellas Hess v. The Illinois Department of Revenue*, which held in effect that there had to be some act of physical nexus with a receiving State before that State could lawfully impose its use or sales tax for collection by an out-of-State mail order retailer. The mere act of soliciting a sale within the State was not itself sufficient nexus, absent congressional permission.

Before and since that time, the Supreme Court of the United States has held that various other acts sending in the salesmen into the State and owning property within the State do fall within the physical nexus requirement and that it does not burden interstate commerce to require out-of-State mail orders or television retailers to collect the sales or use tax.

Two difficulties: By what I regard as conservative estimates, the States are losing at least a billion and a half dollars' worth of legally imposed taxation. The Court did not strike down the imposition of the tax. The Court simply struck down the attempt of the States to collect this tax through the retailer as we collect every other sales and use tax from merchants within our State, or those having a physical nexus to our State.

Second, absent congressional action since 1967, and there has been none, though Representative Brooks last session introduced a bill which he intends to introduce again this year, the States are faced either with simply giving up this lawfully imposed sales tax revenue, an area of taxation long thought to be a mainstay of State revenue collection efforts as we continue to lose Federal funds in various areas of our budget.

On the other hand, States eager to collect the revenue that they believe is lawfully due them are attempting to approach this on a State-by-State, law-by-law, case-law-by-case-law basis, which I am sure eventually will be a far greater burden to interstate commerce than the simple permission of the Congress for us to ask out-of-State retailers to collect it, just as we ask our in-State merchants to collect it.

We believe that ultimately, especially as this Nation moves more and more towards mail order retail sales and 24-hour television solicitation sales, with an estimate that 25 percent of all retail sales

in America will in the early part of next century come from television and mail—think back to the number of catalogs you got this Christmas, unsolicited—that eventually Congress will have to face this issue, and we believe the sooner rather than later.

Perhaps Congressman Brooks' bill needs to be revised or looked at again and perhaps negotiations between the Governors and other associates officers like comptrollers and budget officers and others need to go forward with the Direct Marketers Association.

What we face here, Mr. Chairman and Members of the Congress, is a growing loss of a legitimate State revenue, legitimately imposed, a change in the way that retail sales are occurring in America that exacerbates rather than cures the problem.

To sum it all up in a phrase that you will hear repeatedly in this room all this session, "We don't have a level playing field." There is no level playing field between the neighborhood merchant and the city of Chicago or the small town merchant in a suburban or rural area of Illinois or any other State and those who come into our States by means of the mails or by television and don't charge the same price because they don't have to collect the sales tax. There will never be a completely level playing field between the merchant who must maintain a physical presence, a store, hire employees, participate in the local community and an out-of-State solicitor. We understand that. We are not asking for absolute parity when it cannot be achieved in terms of overhead costs.

The allowance of the sales tax differential between the out-of-State solicitor and those who have been Main Street, neighborhood fixtures in America for a long, long time should not be tolerated any longer in the name of equity. The State should be entitled to use its revenue to become full partners in the State's federal partnership that we will be discussing in areas like welfare reform and education.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Thank you, Governor Thompson.  
Governor Branstad.

**STATEMENT OF HON. TERRY E. BRANSTAD, GOVERNOR OF IOWA,  
AND CHAIR, COMMITTEE ON AGRICULTURE, NATIONAL GOVERNORS' ASSOCIATION**

Governor BRANSTAD. Thank you, Mr. Chairman. Mr. Chairman and members of the Ways and Means Committee, I want to first of all thank you for both the challenge and the opportunity that you provided for us with the major tax reform bill you passed last year. Just about every one of us is wrestling with what to do in our own States in response to that, and I think it has given us a tremendous opportunity to change and modernize our tax laws, and it is something that we are much indebted to you for.

Today, I want to speak as chairman of the agriculture committee of the National Governors' Association on the issue of trade and the impact of trade or the lack thereof on rural America.

We all are very familiar with the crisis in agriculture which is caused by too much debt, too few markets, too low prices, and we used to be able to say that it was the exports from agriculture that balanced our trade. In fact, as recently as the year 1981, we had an

all-time high in agricultural exports of \$42 billion. Yet, last year in 1986, farm exports had dropped 40 percent to only \$26 billion and we had \$21 billion in agricultural imports, for only a net agriculture trade surplus of \$5 billion. That is the lowest agricultural export surplus since 1972. Japan and the European Community either restrict imports or subsidize their own exports. We are aware of the impact of the grain embargoes of the past. At one time the Soviet Union got 70 to 80 percent of their grain from the United States. It is now down to less than 20 percent and the Soviets are not now buying wheat or corn from the United States.

There is a focus needed on expanding export assistance. I believe in fair treatment to the Soviet Union and other countries. The GATT negotiations give us an opportunity to eliminate some of the unfair barriers and export subsidies occurring in other parts of the world.

I think it is important that we continue to change our monetary and fiscal policies to enhance our competitive positions. You have the opportunity as you address this issue of trade to not only approach it from a negative point of view of closing some doors, but you have the opportunity to open some important doors, and I would encourage you to do all that you can to open those doors of opportunity.

Last year with the tax bill, you opened some significant doors of opportunities to us at the State level.

When we visited with the President yesterday, he urged every Governor to go on a trade mission this year to sell overseas what we produce and we are proud to do that.

We want to do our part, but we need your help to open doors and to push for fairer trade policies that could give us opportunity to export our agricultural and other products in the world.

Thank you.

Chairman ROSTENKOWSKI. Governor Castle.

**STATEMENT OF HON. MICHAEL N. CASTLE, GOVERNOR OF DELAWARE, AND CHAIR, COMMITTEE ON HUMAN RESOURCES, NATIONAL GOVERNORS' ASSOCIATION**

Governor CASTLE. Mr. Chairman, thank you very much for the opportunity of being here.

The chairman of the National Governors' Association, Governor Clinton, has already stolen all my thunder, so I won't repeat much about the welfare reform, which we worked so very hard on and in which I was directly involved, except to tell you some of the peripheral things he indicated so extremely ably here.

We basically have recommended that we go to a contract form of dealing with people who are going to receive income assistance that will have other requirements, have requirements both ways in terms of possible remedial education and employment training or even perhaps just basic training with the idea of putting people back to work. There is a lot to that. It ties into other programs that we are looking at, and I am sure you are looking at the whole concept of prevention. It is called the Welfare Prevention Task Force, so the people can eventually be given the tools to get off of welfare, so the young children can be given the opportunity never to go on

to welfare, so the people can ultimately lead better lives. We think there is so much that can be done that has not been done before. Having said that, I might say that the best welfare reform in the world is a good economy. When a State has a good economy, all of a sudden the welfare cases suddenly drop off and everybody thinks they are doing a great job in welfare. In reality, it relates to the number of jobs you can produce and the number of people you put to work. So, we all obviously have to take those steps to deal with that.

I guess one of the important things that I would like to stress from what I have seen just being in Washington for 4 days and talking to members of the administration and the President, when he talked to us, and talking to people in the Senate and the House and the other Governors and just the news media and various other people, this seems to be an issue whose time has come. It is for a number of reasons, I suppose. One is the acceptance of women in the workplace, even an expectation in many cases that if there are two people living in the home, both may be working. If somebody has to help somebody else, they probably should be working.

The politics of it seem to cross political lines. You can argue it from a conservative or liberal point of view, or, if you will, a Republican or Democratic point of view. You can argue from the Governor's point of view, or hear in Congress or over at the White House, and it all seems to make sense all of a sudden because all these things have come together. That, to me, means that we will probably be able to get something done.

I think we have to understand there are ramifications to the child support issue, which is issue of particular concern to Mr. Ford, and Senator Moynihan.

The strength of the training programs is important. A lot of this to some degree is lip service, but you really have to get out and go into the States, and most States here are trying this in some way or another right now, and see the programs and see the individuals and see how they react, because, after all, it is a human thing. It is not just the numbers or what you can save and what we can save. It is a question of taking people and being able to put them to work.

The way the people have received these programs is extraordinary. They are not people who are resisting it because they don't want anything other than just income assistance, but they are people who are realizing that, with this help, they can go out and make something of themselves and they really do appreciate the opportunity, and I think that is a great thing as well.

We are operating under the theme of "Making America Work." We really believe that, and we really believe this can come together. I think the important thing is that while you do a lot of the funding of it and you, unfortunately, have to worry about all the ramifications of that, we as Governors are in a position to make this work, and I think we really want to do that to a man and woman amongst us, and that is while we will work, and this is the year to get something done.

Chairman ROSTENKOWSKI. Thank you.  
Governor Celeste, you may proceed.

STATEMENT OF HON. RICHARD F. CELESTE, GOVERNOR OF OHIO, AND CHAIR, SUBCOMMITTEE ON EMPLOYMENT AND TRAINING, NATIONAL GOVERNORS' ASSOCIATION

Governor CELESTE. Thank you very much, Mr. Chairman. I want to express my appreciation for the opportunity to join my colleagues and be with you today and talk about something which is a little bit of a different angle on our shared concerns.

The focus of the National Governors' Association Employment and Training Subcommittee, which is really very much a custodian of this concern about prevention, particularly in a world in which the norm for the American work force is change.

No matter how well we educate young people, when they come out of school prepared for a job, those jobs themselves will change significantly during the course of their work life.

By the year 2000, 90 percent of all new jobs will require some postsecondary training.

All of us who have wrestled with high unemployment in our communities have recognized men and women who have worked all their lives who suddenly found themselves in a position of dependency, not wanting or choosing that, and looking for alternatives.

This morning, the Governors approved a strategy in terms of worker adjustment that has, I think, some important characteristics. First, there was the feeling that Governors should be given substantial discretionary authority to develop programs that meet the specific needs of their states.

Even among the States we represent, there are very substantially different circumstances. Along with that the definition of dislocated workers should be broad enough to include all workers who are negatively impacted by change. An example would be dislocated farmers who have clearly severe needs, small business people, and others.

A strong emphasis on labor-management cooperation and the importance that this in particular in terms of creating an environment where information can be shared early about potential job loss. There can be a real cooperative effort between labor-management and State and local government to accommodate or to address that.

Conviction that a variety of services must be available in this area of worker adjustment, educational services, training opportunities, job service assistance, support service, day care, income assistance, and so on.

Finally, where possible, programs that prevent job loss should not only be accommodated within the statute, but encouraged, so wherever possible investment can be made that avoids the loss of jobs by virtue of a timely intervention.

The last point that I would stress is the need for accurate and up-to-date information on local labor trends. This is something we don't have currently and for the States to successfully anticipate and manage change for us to make sound decisions about where we target resources, we need information that is accurate and timely, and we encourage the Federal Government to help us in that effort.

Chairman ROSTENKOWSKI. Thank you.

Mr. Rangel.

Mr. RANGEL. Thank you, Mr. Chairman. In talking about the welfare piece, when you met with the President, did he embrace the cost aspect of the Governors' proposal as relates to welfare?

Governor CLINTON. Congressman, let me answer that question as accurately as I can and leave it up perhaps to some of my colleagues in the other party to amplify.

I have met on a couple of occasions with Mr. Hobbs to get a briefing on what the President was going to send up to you. I have argued vigorously that they ought not to wait 5 years to embrace the fundamentals that we recommend, which Governor Castle has just outlined, and that they weren't inconsistent except there is a little front-end money involved. It is a small amount compared to the whole welfare budget in education and training and transition for child care and Medicaid.

On Sunday night, after a long series of meetings on Saturday, I was notified that I should ask the President whether he would embrace these general concepts. I did and he said yes. We didn't have an agreement on dollars, but the staff people who discussed it with him and suggested that I should ask the question certainly knew that some transitional expenses are involved. There was no definite agreement on dollars, but you can't have this program unless you make some front-end investment. You just can't have it.

Mr. RANGEL. Do you have any idea as to how many dollars would be involved?

Governor CLINTON. We have a general idea. Perhaps Governor Castle would discuss the numbers we think are there and how they are broken down.

Governor CASTLE. At this point, Congressman, in order to start the program we recommended, obviously, you have some costs in terms of the child care that would be needed to have your training programs. The actual programs themselves regardless of whether you contract them or run it through your state agencies and various other steps that may have to be taken to make sure the people can go to the various training programs, and the feeling is that in the first year, the costs, by the National Governors' Association calculations, at least, would be in the range of about \$400 million and probably in a full year would be in the range of about \$1 billion—probably on an 80/20 split at least in the second year, more Federal funding up front as far as the first year is concerned.

I don't know the total figures for all of the various welfare programs. I think there is a range of \$140 billion, or whatever now.

Governor Dukakis is not here, but he will argue that the benefits from this are so fast and so great that it almost offsets immediately. That is obviously not completely true. You have to put the money up front, start the program, and at some point people do start to work who go through this program, be it 10, 40, or 50 percent, and there is an easily calculable return if they are not receiving welfare and they are contributing to society.

My own feeling about the President, going back to that subject, is dissimilar from Governor Clinton's. I believe that the White House feels that this is an issue that they very much want to be involved

in; that this meets something that they are interested in, and that is helping individuals work.

Chuck Hobbs has indicated that on several occasions, and I was asked by the media early on how do you reconcile this with what the White House wants to do? I think the answer is not only are they not mutually exclusive—they are inclusive of one another.

I believe that the experiments that they are talking about, which is the basic proposal which you have seen so far, and we have not seen all of the details yet, but what we have seen so far are essentially the kinds of things that we are talking about and probably different congressmen and women are talking about around the country, too, and it is just a question of bringing them together in terms of what we are doing. I just think they have to move up their timetable a little bit. I think they are willing to do it.

For example, Governor Clinton asked a question about the contract, and they said yes, and I think there is a certain assumption the answers they are giving us now in just talking to their people in the last 2 or 3 days that they realize that maybe there would have to be some money up front, as long as they can protect the bottom line of no additional new money, they would be satisfied. So, I believe that it is happening at this time.

Mr. RANGEL. I hope you are right. Anyone can embrace these concepts, but if they are not willing to pay for them, you are a long way from home.

I want you to take a look at everything that is being embraced by this administration. Drug education is being embraced and given to us in State of the Union.

Retraining for jobs that have been lost for our people, and each and every time we look to the budget, the administration has not talked about one nickel.

If you look at their welfare reform package you will see that they have tried to find every nickel and dime that has gone to anyone who is poor and to bring all of these together in one package and cash it out and say that is revenue neutral.

I just hope that you know when you find people embracing your program, embracing and making love without paying for it is a wide gap between it.

Governor SUNUNU. Congressman, I am sure you will be getting specific legislation from them, and they will certainly make their own case.

But I think the important fact is there are areas of support and common approach and the key to us as being as cost effective as we can is the flexibility I tried to address earlier.

A program I put together in New Hampshire is very different than a program that another State would feel more comfortable with in a more agricultural environment than ours. We have portions where we would put programs together that focus on loss of jobs and in training for new jobs in areas such as high tech where it would be different than the efforts that we would put together for them in the more rural segments.

I think that the package we are asking for is to focus on the removal of dependence, the training and flexibility so that we can do the job as well as possible.

Mr. RANGEL. Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Duncan.

Mr. DUNCAN. Thank you, Mr. Chairman. I think you may have noticed a change in philosophy on this committee. At one time we didn't care where the money came from. We just borrowed it but now we want to pay for it. That has been a change in the Congress in recent years.

Some of you gentlemen inherited budget deficits and I think you turned the situation around. I wondered what you did to turn your budgets around.

Governor SUNUNU. I think you inherited a deficit and turned it around and now you have a surplus and maybe two or three of you other Governors, as well.

Governor SUNUNU. Congressman, there are a couple of things involved. We have a tax policy that is very constructive—we do not have very many of them. We have no sales tax. We have no income tax. We are down to 2.4-percent unemployment. We found that that climate has allowed us to reduce the real number of folks on our welfare programs down to 40 percent. We are down by 40 percent. The biggest problem we have in the State right now is really trying to temper the aspirations of the legislature to spend that surplus. Now, I realize there are disparities around the country.

That is why I go back to suggest the maximum and best use we can make of any program we can put together allows us to deal differently than some of the States that have a difficult economic situation right now in a very difficult climate. The balancing of a budget is not a magic art. You look at the revenues you are going to get and allocate the expenditures to stay within those revenues. It is something that just about all the States have a requirement to balance their budgets; they have a requirement to make sure those come out right and when they don't come out right, we have to make them right in the very next year or else we violate our constitutions.

Chairman ROSTENKOWSKI. Governor Clinton.

Governor CLINTON. If I might just speak on behalf of all the States, it is so different from place to place. When Governor Celeste came in to office, he had a big deficit. He had to raise taxes. Then he had good revenue growth, and I think that had some moderation. You might want him to speak to that.

To give you a worst case example, worst thing that could happen to you if you lose revenues; in North Dakota, if they had maintained a constant tax base, I think their revenue shrinkage would have been about 30 percent over the last 2½ years because of the collapse of agriculture and oil and gas. So there they have raised the income tax and sales tax and cut spending across the board by 15 percent. That is the worst case. We don't have any options.

Congressman Dorgan can comment on it. But we have done whatever we had to do and it is worse in the States where there is no revenue growth. So it is literally add and subtract time. You either have to cut spending or raise taxes and there are no options from growth.

Mr. DUNCAN. How many of you have mandatory balanced budgets?

Governor CLINTON. Forty-nine.

Mr. DUNCAN. Do you like that? Would you like to do away with it?

Governor BRANSTAD. We would like to keep it.

Mr. DUNCAN. Would you like to abolish the mandatory requirement for a balanced budget?

Governor SUNUNU. No, I like it.

Mr. DUNCAN. How many of you have the line item veto?

Governor SUNUNU. I think all but me, but I am mean.

Mr. DUNCAN. Governor Celeste, I think you wanted to respond.

Governor CELESTE. If I may, Mr. Chairman and Mr. Duncan; as Governor Clinton indicated, when I became Governor in 1983, it was first estimated at a \$250 million deficit but it turned out to be half a billion dollar deficit with about 5 months in which to fulfill that balanced budget constitutional obligation. So we raised taxes substantially and cut spending. Since that time we have been able to moderate the time increase as our economy has improved.

I would point out one has to deal with all sorts of odd circumstances in law. We owed the Federal Government \$2 billion in unemployment compensation and half that we were obliged to pay was interest. So, in the last 2 years we have spent \$250 million dollars of State general revenue money on interest on our unemployment compensation to help balance the Federal budget. We have also exported administrative dollars that are collected out of your employer taxing the unemployment system, \$20 million or so a year. So we are not only balancing our own budget, we are helping other States administer an unemployment system and we are paying interest that helps the Federal Government balance its debts, all because we take our responsibilities under the law very seriously.

Mr. DUNCAN. You do not object to paying back money you borrowed, do you?

Governor CELESTE. We have always paid back the money we borrowed. We object to being the first ones to have to pay interest. On top of that, only get in 70 cents on a dollar in employer taxes in terms of unemployment.

I would like to make a comment on the notion of flexibility because one of the issues that goes to the question Mr. Rangel raised about resources is how we can use these resources and how genuine the flexibility is that is offered to us. Currently what is called flexibility obliges us to seek waivers from the rule, to find an exception; that is a tedious time consuming task that often increases the cost of doing business. We have gone the process for 16, 18, 20 months the seek a waiver in a Medicaid area only to be told if we did it a different way, we didn't need the waiver in the first place. So I would encourage you as you frame legislation down the line to help by clear delegation of responsibility to give us a maximum amount of flexibility by rule to hold us accountable for that rather than to do it by means of an exception or waiver process which is very expensive in the long run.

Mr. DUNCAN. Thank you very much. You have certainly been most helpful to us.

Chairman ROSTENKOWSKI. Mr. Ford.

Mr. FORD. Thank you very much, Mr. Chairman. I had an opportunity to meet with the delegation of Governors earlier this after-

noon. The Governors have talked about tax reform being a great challenge for us here in the Congress. I would agree with that, but welfare reform will probably be even a greater challenge for all of us not only here in the Congress but with the participation of the Governors, knowing that 49 of the 50 Governors have gone on record now in strong support of a welfare reform package that will repair or replace the old AFDC program which represents the welfare population of this nation. We know what needs to be done and I think it is time now to make it very clear, let's get on about the business of doing it.

I have seen and I have had an opportunity to talk about the proposal that has been submitted by the Governors. I have not privy to other than the Hobbs report, which is the President's welfare package that is being submitted today; we have had hearings for the past 18 months. We have studied the issues and we feel strongly about moving forward and trying to do something to bring about legislation that will replace the old welfare system itself. You know the old saying is if it ain't broke, don't fix it. In this case, it is out of whack and we need to fix it and we need to move forward to do that. I feel with the strong support from the Governors' association and each Governor showing us that support will give us the ammunition we need in this Congress to move forward with a welfare reform package.

Let me raise a couple of questions, governors.

We talk about the system and we talk about the dollars which your proposal will address, and I think we talked earlier about the tune of \$1 billion, and we have heard from the leadership here in the House and in talking and saying well let us not worry today about the dollar amount and let's bring a package to the floor and let's see what the different components in a welfare bill will cost, knowing that we are working under severe budget restraints in the Congress. We will make that decision later in May, June or July as to whether we with can report a bill from this House.

When we talk about work, education, and training being the major components of a welfare reform package and knowing this administration has gone on record supporting Governor Clinton, saying we want to support the work and training opportunities in your bill, but I also want to know what did the Governor say to you last night when you talked about the proposed national standards for welfare benefits. Did he address the issue outside of work and training because when President Reagan talks about work, education, and training often times he gets it confused with workfare. I am wondering now whether you addressed the standard benefits to the President in your sessions last night.

Governor CLINTON. To be fair, I think the administration made it clear they were opposed to that portion of our recommendations, but the Governors also had reservations about asking the Congress to undertake an expenditure at the level, having a national formula that defining family needs would imply, and Governor Castle might want to confirm this, but as I read our policy, it is explicit that going to national standards which would require greater investment should be done only when the savings from the present program, the front-end program could pay for the greater investment.

The administration does not support it even in philosophy and they do not make any bones about that, but that is one of the reasons, to go back to Mr. Rangel's question, that I felt they need on the front end a significant financial commitment involving supporting the contracts, the education, the child care, and the Medicaid extensions.

Governor Castle might want to comment on that.

Governor CASTLE. My comment is to confirm what Governor Clinton just indicated. We did have some possible erosion in our support if we did not include a provision that would indicate that the reform of income assistance would be funded from the savings which we would derive from the other program on the assumption that there would someday be savings. Obviously, that builds in an automatic delay of a minimum of 2 or 3 years before that is done and that is purely the policy of the Government. I do not have an independent recollection of the President's speaking to that but he clearly aimed anything he told us at the issues that you have mentioned, the question of work education and training, not diminishing the income assistance in those areas but that is really as far as I am concerned what he and if staff were speaking about when they spoke to us yesterday in our policy meeting with them.

Mr. FORD. Have you thought of any changes that should be made to the child support enforcement program, which we have already passed and signed into law, how we can strengthen the program in the child support enforcement area as well as, two, what about the two-parent family, the family unit. We are talking about a pro-family welfare reform package and the unemployed parent component, meaning the two-parent family in 24 or 25 States today have opted out of the programs, child support enforcement and the unemployed parent. Could you respond to those two in your report?

Governor CASTLE. The child support enforcement, we clearly think that should be a component of what we are doing. The individual States and Delaware, for example, are taking up a program in which we are trying to track people, track their income better and do all the things we have to do. Interstate cooperation is vital in that. I did that as an attorney before being a Governor and it is a heck of a thing to have a client sit there and tell you her former husband is living in Pennsylvania or some other State and you know all you can do is get an attorney there and go to court and that kind of thing. We just need to do a lot to try to address that particular area.

Mr. FORD. Should that area go outside the welfare population and address the other 5 million children?

Governor CASTLE. Yes, I do not think that should be limited to the low income or welfare area as well. I think that is just a truism as far as any child support is concerned. I think we should all do what we can. The whole concept of using lawyers in courts and the methodology of paying for someone to support a child is a very clumsy mechanism, unfortunately something that has existed in this country. So that is very difficult for us. There are many different concepts of how to do that: the use of tracking through Social Security income, tax paper or something which the Congress might be very interested in helping with. We have to look at our motor vehicle registration and other ways of getting information to try

and track this. I do not have the answer in making it simpler. Arbitration versus the court is part of that, I think. Senator Moynihan as you know when he spoke to us today has indicated that he feels a lot of this new program can be funded with better child support provisions. Frankly, when we people know that if they are going to have a series of underground jobs, but somehow you develop techniques to get in and find out what they are doing and have them pay child support; they start doing it voluntarily. When your system starts to work a lot of people will come forward and say, okay, I understand I have to pay now. Let us get this resolved and they will go ahead and they will pay. Other people may have their own ideas. You are right; it goes well beyond the low income situation.

On the UP program, as far as our discussion is concerned, that was really under the reform of the income assistance. We did not take it up separately. You are right. Half the States have it. Half the States do not have it and that was really under the group of things we felt should be funded as a national standard after the savings start to come in with respect to the welfare reform we have discussed as far as our policy today was concerned.

Governor SUNUNU. The State of New Hampshire and the State of Maine with some support from the Federal Government are undertaking a multistate computer based data sharing process to make more effective the child support programs, and we have found even in the early programs we have put together if there is a commitment on the part of the State to be innovative and aggressive and honest about that effort it really has made a very significant contribution to the funds available to some of the kids that need that support. So there is, I think, a tremendous opportunity out there that the States and Federal Government have not taken advantage of.

Chairman ROSTENKOWSKI. Mr. Downey.

Mr. DOWNEY. Thank you, Mr. Chairman. I think we are at a unique time in history because we are about to do welfare reform. I want to congratulate all the Governors, both Democrats and Republicans, because you have made our job a lot easier. At the same time I am troubled that one of the dirty little secrets of welfare reform is it is going to cost money. We are simply not going to solve the problem of welfare reform by putting to work as much as we all want to do that and as much as Governor Clinton, I think, has articulately described changing the system. The fact is, this is from a report of the people who are poor, 46 percent are employable working age adults, 38 percent are children, 10 percent are elderly, 5 percent are disabled. One of the things that concerns me most about welfare reform most is, A, the time in history when we can do in such a bipartisan and genial sense is not often and this is the time; and, B, given the fact that it is the time, we should do it right. Doing it right to me is not just a question of employing the people who are capable of working and should work in developing the contract. That is terrific and we are going to do that and doing child support enforcement we should also do. Governor Sununu talked about a very interesting idea of going after the people who should be paying, a lot of the delinquent fathers. There are a lot of people out there whose benefit level is very low because of the dis-

parate ways in which we do welfare and it is not likely under your proposal to go much higher. I would like you to address for a minute, because Senator Evans and I have a bill which raises the benefit level for a lot of the people who cannot work because being poor in New Hampshire is not a lot different than being poor in upstate New York but the likelihood in New York is if you are poor in upstate New York you are likely to get \$200 more in benefits. But if you are poor in Arkansas, the family of four is making \$224. A family of four in New Hampshire is \$442. And if you are poor in New York, the likelihood is you are going to get \$600, and in California even more. I think poverty is a national problem, and I think to solve it we need to provide national resources to do it.

What I would like to know from the Governors is beyond the question of putting people to work, an area we all agree on, child support enforcement, what are we going to do to try and make the benefit level for the people who are unable or incapable of working more consistent so that more of them are eligible for Medicaid, especially the children, and more of them get a benefit level on which they can properly live so we can move them a little bit away from the level of desperation they are currently now are in.

Governor Clinton, would you start?

Governor CLINTON. Congressman Downey, you have given us some flexibility in the last couple of years that permits us to cover some children with Medicaid who otherwise could not have been covered a few years ago and it is something we are grateful for. If you read the whole welfare reform proposal, the Governors on the task force plainly believe there should be a more uniform methodology for defining the national need for children and others on welfare and a somewhat more uniform way of funding it, recognizing there are real differences in cost of living from State to State. The fact is given the present distribution of resources some of the poorest States in the country are those which have the greatest need for increasing benefits and the least capacity to do that, to raise the money, to raise the taxes to do it on their balanced budget requirements.

So consistent with the federalism proposal it would be fine with us if you did it because the whole Evans-Robb federalism proposal involves a swath of responsibilities. If you took up on more expense, presumably you would give us more that is discretionary and we would have to absorb them.

I guess what we thought was we had to make a recommendation on funding consistent with the assumption that things would stay more or less as they are in terms of who is paying for what and particularly given the opposition of the cities and the counties in this country to that change in responsibilities in the aftermath of the abolition of local revenue sharing, we thought we were making a more pragmatic recommendation.

Mr. DOWNEY. Thank you, and Governor Sununu I would have a question I would like to ask you and let me make one other comment.

Would any of you be opposed to the idea of the Federal Government picking up 60, 70, 80 or 90 percent of AFDC and Medicaid and devolving some programs like EDA and CDBG and other things like that. That is the swap I am interested in. I am prepared

to make sure that somebody who is poor in Arkansas does not get treated any differently than somebody who is poor in New York.

Governor SUNUNU. Congressman, we have a new federalism task force to reexamine that whole tradeoff. We a few years ago were very aggressive in trying to work with Congress to establish those. We could never come to an effective set of agreements but we are willing to start that examination all over again. I just ask that you recognize that I think the Governors are going to be reluctant to make the mistake of giving up flexibility just for dollars and that the key to making it palatable and desirable and effective is to maximize the level of flexibility that the States have to tailor the pieces of the program. You may set an overall object if but let us tailor the pieces of the program to provide the emphasis we think is appropriate to meet needs.

Mr. DOWNEY. Governor Thompson.

Governor THOMPSON. That is the NGA policy and a number of us spent a great deal of time in the White House and on the Hill in 1981 in an attempt to formalize that swap and we could never make much headway at either end of Pennsylvania Avenue. But that is current policy. I think the Governors would be glad to return to an initiative on that.

Mr. DOWNEY. I don't like the idea that Senator Evans and I are hung in effigy in major cities across the country by virtue of the fact that we want to give you the money to increase benefit levels for the poor and also the flexibility. I trust the States; 20 years ago maybe we could not have said that but now I trust you to care about your constituents, our constituents in a way that is flexible and intelligent. Poverty has different faces in this country. But the idea that we are going to spend an additional \$1 or \$2 billion and raise taxes to do it for welfare I think is crazy. Maybe we can raise taxes a little bit and I think we should do that. Another thing we have to do is figure out what works and what does not work and give you the flexibility to do it. I would urge you as Governors conference to speak once again clearly to this question of federalism. We are celebrating the 200 years of who does what in our country and I would like to hear you talk in a little louder voice. You have in the past but the only voices I hear now are the voices of cities and counties and they are opposed to this and I do not think they realize that we are talking about the same people and we want to help the same people.

Governor SUNUNU. If you look at the videotape replay of our plenary session, I made about the same speech you made, which really surprises me in some sense.

Mr. DOWNEY. You are surprised? I must say I am genuinely impressed by my colleague from New York and believe that the old Richard Nixon ideas of federalism and swap and now might just be potentially the way to pay for this because some of the other ways that are being talked about are very difficult. I want to say to my friend that I want to work with him in that regard because I believe that flexibility to Governors who I believe today are a new breed of cat; you are much more effective leaders and problem solvers and will shoulder the responsibilities of a swap; for example, food stamps for health care or whatever it might be, as one examines what the old ideas were, what the new ideas might have to be,

are generally the right ways to approach getting this job done, getting a more effective job done for the people you have to care for closer to home. I believe that the days of White House bating and maybe party bating back here except for a few might well be over in large measure thanks to the 24 to 26 split, is that what it is, of partisanship in the 50 Governors, a well balanced, bipartisan thoughtful tough set of decisions that you all made that are going to help us indeed deliver what our subcommittee chairman Mr. Ford said is going to be an opportunity for genuine welfare reform in this session of Congress and it is an idea whose time has come.

I worry a little bit about definitions. I worry about how you define a person who is displaced. I worry about that because if you take the numerator and denominator of every kind of indexed entitlement we have now, we keep using inflators and put more people in the numerator and more people in the denominator and when we divide it we end up qualifying more and more people for programs we never intended them to be qualified in the first place. So when we do all the definitions, who is retrainable, who is displaced, who is dislocated, I think our definition is what we need to care for in what we do and I think we all would like to do a lot of things and support a lot of things but if we cannot pay for them we are not responsible if we say we support them and cannot pay for them.

I have one question for each of you.

I know it is impossible to answer this yes or no, but would you try, because it might help us decide what direction to take, and a yes or no will help me because of the efforts you made to tell us how you had to amend your policy statement on the guaranteed annual income. I would like to know from each of you just sort of yes or no, rather than maybe, whether you would support that idea being a part of what we do this year. Yes or no? Should we try to figure out a way to end up with \$9,000, an equivalent amount of income support that that dislocated or retrained person is going to have to have to get through the contracted work program that well might set out for them. Are you in favor or at this time do you oppose a guaranteed annual income or federalized standard of benefits in our package that we undertake here in Congress this year? However you wish to do that.

Governor SUNUNU. Are you asking us if we want to set a level of \$9,000?

Mr. DOWNEY. A uniform level of benefits in a package.

Governor CASTLE. Including the income support for the person as well as the training, the package the whole thing.

Mr. DOWNEY. Federalize it and package the whole thing, yes or no.

Governor CLINTON. Let me try to answer your question for all of us. Let me try to answer your question in terms of Congressman Downey's question.

Mr. DOWNEY. You can't have it both ways. I have read the report.

Governor CLINTON. The answer to your total question is no. What we want is enough money to finance the education and training component and cover transitional costs, day care and Medicaid for up to a year after taking a job if there is no health insurance

within the present benefit structure existing in any States as modified by any State under current law. That is what we want now.

Now, you might get a different answer if you seriously decide to undertake the responsibility swap implicit in the Evans-Downey approach if you see what I mean. Then that is your decision. You can make that decision however you want, if you decide to embrace that idea and give us back some of those other programs but on its own terms I think consistent with our position the answer has to be no.

Mr. DOWNEY. Does everybody agree no?

Governor SUNUNU. Let me explain that in terms of some of the differences we would like to implement. There are programs where I can get private sector contributions in my State for one slice and not for the other, and for me to guaranty across the board \$9,000, somebody is going to say they are entitled even if they are in that program where I can reallocate funds under flexibility to deal with some other perceived need.

Mr. DOWNEY. If you use your contract idea with a recipient, an eligible person, and you define that and they sign up and put the kid in the day care center and they go off to be retrained; at the end of that period, is the State willing to take a test on some basis that we're going to have a replacement rate to determine success, and if so, what about the person who does not end up getting the job or going to work. Are we going to have some subtraction that is involved and do they continue to get welfare then as we know it today?

Governor CASTLE. I think the answer to the first question is yes, we are willing as part of our policy to have some sort of standard setup of some sort of accomplishment in any kind of a system that is put into place.

The answer to the second question is more difficult. You will have people going who are going to go through training; it is going to cost you a lot of money. You are going to pay for their child care and significant individualized training. And if for some reason or other they then become uncooperative in terms of getting a job. Do you punish the children of that particular parent in that case. That becomes a very difficult question. I think the answer lies in how you compose your contract and how well your case workers do their work. We have never given individual attention to this, but if we have people now, and this is part of the cost factor, who are now willing to sit down and work with these individuals and tell a certain person he or she must go out and do whatever has to be done, you will guide him in that fashion. As far as I can recall, we have not gotten to the point where we said we would cut off funding all together if the alternative happens. However, we need the strictest provisions possible to get it to the point where that would be very difficult for that person to do.

Mr. DOWNEY. Thank you very much.

Chairman ROSTENKOWSKI. Mr. Pease.

Mr. PEASE. I want to welcome the Governors, especially my own distinguished Governor, Richard Celeste, with whom I once served in the legislature which has been excoriated for being a high spending organization. It probably no longer is.

I generally approve of the ideas of the Governors association on welfare reform and I think we ought to try to put people back to work or to work to the extent that we can. One thing that intrigues me is that we are proposing to train welfare recipients to go into the workplace at a time when there are some 7 million already unemployed in this country, many of whom have long attachments to the work force and pretty good educational background.

How do you see the needs of these new entrants from the welfare system into the work force competing with the 7 million people already unemployed and do you favor any kind of a component for public service jobs where it either provides for that or provides in terms of flexibility for a pilot program where you would have the opportunity to create public service jobs to accommodate these new entrants?

Governor CLINTON. Let me take a crack at your question and then turn it over to our colleagues.

First of all, most of us believe that at least some of the unemployment in our country, maybe as high as 2 percent of it, is due to the disability of people who are in the job market but are round pegs in square holes, some of whom are on AFDC, some of whom are not. One of the things I look forward to coming out of this Congress, because there are so many initiatives on it, is real progress in what is one of our most urgent national needs, which is to develop lifetime system, a fully flexible lifetime system of available opportunities for continuous retraining. I believe if you remove a lot of the disabilities on the AFDC people you are going to have some more jobs as you have more people able to fill them. Let me give you an example. My State for the last 5 years in virtually ever month has had one of the eight or nine highest unemployment rates in the country, high structural unemployment. Even with our small WIN program with the amount of money you have given us so far, we are placing an increased number of hard core unemployed people into the work force. So there will not be an exact fit, but there will be some.

Second, we are divided on the issue of public employment and maybe what you ought to do, let me give you an example. Suppose you have a two-parent household in an AFDC upstate and one can't find a job. You want public employment for the father, training or something. My recommendation to you on that and I am not speaking as chairman now—we did not take a vote on this; we are divided on this since there are a lot of upsides and downsides to it. Congressman Ford has strong feelings and I am sorry he is gone. I would recommend that you do no more than authorize or even mandate each state to have some sort of test on that. I for one hope you will do that.

Governor CASTLE. We heard a couple of people talking to us saying the demographics show us by the year 2000 there will be more jobs than people to hold the jobs. Theoretically that is helping to resolve the problem here.

I personally don't favor the public service creation of jobs if we can avoid it. I think it is counterproductive to train people for something we also put up public money to pay for and I find that bothersome as a real solution to the problem. I am not sure people

would look upon that as a real job. So I am not totally sure that I feel that that is a particularly good solution for our training.

Also, unemployment is a strange figure as we know. First of all, no one knows if a 3-percent unemployment rate is truly 3 percent or it is something more, depending on how you look at it and people are not looking for jobs and that kind of thing. But it also, as we all know, varies in terms of the kinds of jobs which are available. If we get down to 4-percent unemployment in Delaware, I see a lot of signs of a lot of low income jobs. It would look to me as if the unemployment in that area is closer to one percent. It is a strange creature in terms of what is unemployment. We have generally found in a small State like Delaware when we train people properly that there are jobs available out there. It is really getting the people to agree that they want to do this when it really becomes a vital question. We really have not had the problem of training and no job out there. If the person is really qualified and gone through the proper training somebody will usually be fairly interested in employing them. We are in a better circumstance than some states might be but that is the best answer I can give you.

Governor CELESTE. In reaffirmation of something Governor Clinton said, you know the problems we have with unemployment in Ohio, probably much over 7½ or 8 percent and much higher in certain areas. Yet we were able to place 22,000 WIN recipients in jobs this past year. I think there is substantial room for movement particularly in the lower paying jobs to provide real opportunities. But with that there has to be some attention to health care coverage, particularly as people move from public assistance into a private sector job and I think that day care and the support services necessary really must be there if we are serious about requiring people to take jobs. I for one would agree with Bill Clinton; I would like to see a pilot public service component because if you are training people there really ought to be the opportunity to work at the other end of that, and much of what we reinforce are a set of work skills and attitudes that are important for them and an example for their children. If the private sector does not have enough jobs to accommodate that, it would be, I think, beneficial for us all to look at that.

Chairman ROSTENKOWSKI. Mr. Matsui will inquire.

Mr. MATSUI. Thank you, Mr. Chairman. I would like to thank you all of you from the National Governors' Association for coming up with your welfare reform package. I think it is revolutionary and one in which the Congress should try to enact. I really think that all of you have used a great deal of creative talents to come up with this proposal.

I would like to touch upon what Representative Downey and Representative Ford brought up, the family living standard issue and a national living standards. You did not in your recommendations make a recommendation for a national standard to be paid by the Federal Government in this particular bill. Could you tell me exactly why you did not want to impose your will upon the Congress because it would obviously augment our budget deficit problems or is because philosophically there was a problem among the

ranks of the Governors? Perhaps Governor Clinton could first respond to that and Governor Castle after.

Governor CLINTON. The reason we didn't do it is we thought we owed it to the Congress and to the President not to front-load a program with a lot of costs with all of the other problems you have up here and we thought that a modest increase we recommended with our investment strategy would provide benefits sufficient over the next 3 or 4 years to plow savings back into raising benefits according to a national standard of need. That is the theory behind the position we took.

Governor CASTLE. I hope I heard your question correctly but I would like to read you something because perhaps we have given a misimpression here as to what we really did standard for. It is just the payment aspect that we do not believe in. We do believe in that as a concept, if it could be funded. I am delighted to hear this committee and each individual congress person indicating their concerning spending to much money in this day and age, and that was our concern, too. But we did state before we got to the conditions that we would have to have the money to do it. But the Governors recommend in income support should be based on a measure of family need or family living standard. This standard would represent the cost of purchasing family essentials, food, housing, clothing health care, et cetera. It would be determined on a State-by-State basis using a nationally consistent methodology. Support should be provided for current AFDC recipients plus two-parent families where that option is not available. Coverage should be increased gradually to all families living below the family living standard. So the belief is there.

I think the real question came in when we put in the provision it is our intent that the reforms and the income assistance will be funded with savings realized through our preventive initiative and through our jobs programs. We did not feel it was fair to come to you and say here is additional—and when you put all those things together it is at least a \$3.5 billion program by our reckoning, if not more. It does not mean that philosophically we do not think that should not be done, and I agree with what Congressman Downey, who painted a picture in different parts of the country and I am not totally happen where Delaware is in that right now. We need to do some work on our own situation. Each of the States because of some of the matching ability you set up can do that on their own and I would hope with the focus on welfare some of that would happen naturally anyhow. But I wanted to indicate that because it is a little bit different than we have been saying.

I will give all of you a copy of our policy. You may have a copy.

Mr. MATSUI. Thank you for that clarification. I do appreciate that. Obviously we will have to spend front money in the training and job placement and the education side of this particular program. I think that is essential to the entire program. If we decided to try to augment the benefit level part, especially for those who perhaps will never be able to find a job, such as the disabled, through SSI or otherwise, for those who are going through the training program, if we should try to augment their benefit level, would the Governors Association buy onto any kind of percent payment. In other words, if the Federal Government would come up

with a large share of it, would the Governors Association be amenable to negotiating a partial share of whatever that increase would be provided it is reasonable.

Governor SUNUNU. If you are asking for a number at this point I am not prepared to give you what I would support but the basic principle, we said at some point we are going to be reluctant to give up flexibility just to get more dollars. I think that is something that ought to be kept in mind as you try to develop what that level is and what the requirements and mandating structures are going to be like.

Governor CLINTON. That is certainly not inconsistent with the policy which Governor Castle just read to you. I have asked his task force to continue in existence for the express purpose of working with the Congress toward some resolution on that issue. That is something we could keep on the tables and take to our fellow governors.

Mr. MATSUI. I appreciate that.

Governor CASTLE. I have no comment beyond that Congressman. I am not at liberty to speak for all of the Governors. I will say, though, in looking at all these programs, there is a whole range, as you know, of different sharing of numbers. I think the WIN program is 90-10. Because that may terminate, I recommended 100-percent funding in Delaware. So Governors are doing various things in various States to make sure programs continue. I think the overall funding is something like 80 percent, Federal 20 percent, State is you add up all of it, the different benefit program. We are aware of that. We are aware that is part of the negotiation, but I would rather see some of these things continue with some flexible funding, if that is what it takes to continue some of them, than be abandoned.

Mr. MATSUI. I appreciate that. I am not suggesting we take a bigger bite than we could swallow because this package that is being proposed is really big enough. I would hate to leave those at the current benefit level alone and not try to help them in the context of the welfare reform package as well. I think we will probably want to sit down with you and try to see what we can come up with. Obviously, it would have to be a negotiated, consensus type of package. We certainly wouldn't want to force anything down your throats.

Chairman ROSTENKOWSKI. Mr. Russo will inquire.

Mr. RUSSO. Thank you very much, Mr. Chairman. I have to say it is always a pleasure to have the Governors come in and give us advice. We in Washington have had experience with two former Governors and as a result of that experience, we are a little bit gun shy.

Governor CLINTON. We don't have anything to do with guns, Congressman.

Mr. RUSSO. I understand we are interested in establishing a system that rewards work. I am a big fan of workfare, but I don't think that that by itself can solve the problem. How do we encourage work under your proposal? What do we do? In the past we disregarded a certain amount of earned income to encourage people to enter the workplace. The President has been in since 1981 and we have cut back sharply on these disregards. Do you support going

back to the system where we disregard earned income or what other plan do you have to reward work.

Governor CASTLE. You are not going to have any kind of system, indeed, if you don't make it worth while for people. You can have all the good government programs you want and have people sign contracts but ultimately if it is more beneficial not to work than to work, then you are not going to be able to do too much.

I think there are a couple of factors. One is I believe from what I have seen that a lot of people on long term welfare situations when given the opportunity to work appreciate that and for that reason are most interested in work than welfare—everything else being equal. However I do not think that is enough. I think more has to happen. One of the concerns we have as Governors in the individual States in addition to that is the whole question of making work worth while; the working poor, for example, if you add AFDC and food stamps and Medicaid, particularly with the open-ended aspect of Medicaid and you tell a person they are going to work at McDonald's or whoever pays a minimum wage, then in that circumstance they are probably not going to have medical insurance and they are probably in a situation in which they don't see a lot of hope as far as their future is concerned. For that reason, the work becomes sort of a very iffy proposition; to give up the Medicaid card in order to work is something they probably don't want to do.

For instance, in our State we are looking to the possibility of some sort of medical insurance working with our HMO's that will be offered to the working poor that we might help with.

You look at that in terms of some housing provisions that exist out there. You look in terms of capping various things so people don't have to pay too much back to the various government in programs they may have been in and various other things that we are doing. So ultimately you build in some distance between the work and the programs we have. Now, having said that, I understand that also our level payment are also too low in some cases. As those get higher, then you overcome the work again, which also is very difficult. That is discouraging. It is not simple except that I think we have to worry about the issue of the working poor. We have to look at the possibility—we don't have a recommendation on this, but some continuation of food stamps, some continuation of Medicare, different things that we can do.

Mr. Russo. I think it is important, Governor, that we have some sort of information on it. I worked on AFDC in the early days of the Reagan revolution. We opposed cutting back the disregards because it was our feeling the moment you gave the person who was working less of an incentive to work and they could spend more time with their children rather than sending them to day care centers, you take them off the roads so they don't have to travel to work, they lose their health care benefits and education benefits; as long as you cut back on all of that you eliminate the incentive to work. They do better on welfare. One advantage they have is they would have more time with their children. It seems to me we need to do something to deal with that. I would hope the Governors would develop a position to deal with the work incentive part of this equation.

One other question. I know one of the comments made earlier was that in order to pay for the two-parent program and the minimum benefit proposal, you could achieve that with the dollars realized by saving in the work incentive end of it. Do you really believe you are going to save enough money to pay for the two-parent program and the minimum benefit proposal?

Governor CASTLE. If we had not agreed to that, we might not have gotten this done today.

Mr. Russo. How many dollars do you think you are going to be able to save in the work program?

Governor CASTLE. It differs, depending on the Governors you speak to, and I don't have that whole dollar number. Nobody tried to calculate that. We made a more general philosophical statement than a specific numerical statement today. Nobody even tried to calculate would there be enough savings at some point to start to do this. The general understanding of the Governors who put in work incentives programs of one sort or another is that ultimately they do save money. When you start to save money hopefully that in the aggregate would add up to enough to help sustain some of these other programs. Let me say that was in the heat of trying to get in done today. There was a concern that we should not endorse any kind of income assistance Federal standards program that would actually cause Congress to have to appropriate more money in that particular area as a recommendation made from the Governors. In order to accommodate that, we put in the other provision, with the thinking at least that that is the direction it will go and there will be a saving of money and for that reason perhaps it will help with this. But, no, nobody ever calculated will it be a billion dollars or \$4 billion or at any period of time and I don't have any on that today.

Mr. Russo. As I understand the testimony and the comments made by the various Governors you do expect it to cost more money in the short term, do you not?

Governor CLINTON. Absolutely.

Mr. Russo. We need to make that commitment. There is no alternative to spending Federal dollars to make the program actually work.

Governor CASTLE. Absolutely, we understand that. We realize up front there would have to be some additional money.

Mr. FORD. On that note, Mr. Chairman, if you do not mind, are you expecting the Federal Government to finance 50, 60, 70 percent? Should the Federal Government put up more than States giving States the flexibilities that they need but at the same time only meet you 40 percent, 40, 50 percent?

Governor CASTLE. In the last couple of years we used 25-75 split. I believe there has been some legislation to that effect in the past. That does not mean anyone is beholden to that particular figure but that is the figure we used in coming up with the half billion and the \$1 billion based on the fact that legislation similar to that had been introduced in the past for similar programs.

Mr. JENKINS. Thank you, Mr. Chairman. I want to express my appreciation to the panel. I think that your suggestions are very good. Mr. Russo and I also serve on the Budget Committee, so I want to ask a couple of questions with my other hat on for a

moment. If we have an outlay freeze, a total freeze at last year's level, we would reach a deficit next year of \$109 billion. That is if we freeze everything at the outlay level. If we took in those people who become eligible for Social Security because of their age, and add on for demographics in programs like Medicaid, we would have to add roughly \$18 billion in spending above an outlay freeze. If we also gave COLAs to Social Security recipients we would have to add another \$9 billion, a total of about \$28 billion. And there are even more add-ons simply because of demographics. The point I am making is I want to make sure we pay for any new initiative and I am sure all of you have looked at this and recognized that with the mandate without new revenues, we will have to cut somewhere in order to reach the Gramm-Rudman target even if we freeze everything to reduce the deficit to \$109 billion. Honestly speaking, it is going to be difficult to implement any new initiative unless we can find the money to pay for it, and I am sure you have found this the case because your general statements indicated you expect these other programs to suffer.

I have just met with the school lunch people because there are mandated cuts there if they are not changed. Is this going to impact the States very much or are you able to handle a 20 to 25 percent cut?

Governor CASTLE. I believe the total dollars that are committed to work, training and the whole concept that we are putting together is about 1 percent that is spent on all these programs today. Obviously we think this needs to be increased to make the programs work, which is the amount of money we are talking about. We do believe and we all firmly believe that this will ultimately be a cost saving and I admit the money has to be spent up front. That cost savings can come faster rather than more slowly in some cases; that is within the same budget year, it may start to produce if people are not drawing down welfare and beginning to pay taxes. Obviously that is something that is hard to calculate but those who have seen the program work believe that has happened and I think that is almost all the Governors in this day and age. Having said that and realizing that is fine, but you have a certain date by which you have to have a budget and you are concerned about the budget; and I am delighted you are concerned; and you are worrying about \$109 million deficit and Social Security adds and COLAs and all these kinds of questions, I would only say in the broad context of all of the different programs, low income programs, that we have and in the context of the budget as a whole, I would imagine the initial first year half billion dollar costs that we are talking about are something that can be found without changing whole numbers, but perhaps substituting in another program. I don't have an answer to what that program should be today and I don't mean to pass the buck to you on that because I know how tough that is because we have to make our own decisions. But it is my own feeling that this is such an important area and something in which we think ultimately cost savings may be so great, it is worth the seed money to start it and therefore we should not overlook it just for the budgetary reasons, but that does not mean we should not go into that budget and try to carve it out someplace else if we possibly could.

Governor CLINTON. Let me go to the only responsible answer I think we can give at this time. We don't know what all of the options are available to you, although we have some general idea. We have consistently advocated a budget policy in the Governors Association we think is designed to help you do what you are trying to do which is lower the deficit without wrecking the fundamental fabric of responsibility that we have to our own people and to preserve the national defense. Therefore, if it comes down to decision making time and you have three or four clear options of what you think you would have to do to get this funded then I think you have a right to call me and our little committee back and say, okay, this is the very best we can do, here are the options; if we do it will you support us, Republicans and Democrats alike, not only now but back home. I think we have a responsibility if you issue that call to respond.

I want to make this point. I live in the State with the second highest percentage of senior citizens in the country and I am proud of that and I am proud of the U.S. Congress for over the last 15 years setting in motion a process which for the first time in American history in 1985 made the elderly less poor than the rest of the country. I am proud of that.

But we now have to adopt an investment strategy for these kids. We have to put more money into education. This is an investment strategy. We are only spending 1 percent of these welfare dollars trying to put people to work and educate them and train them. It is not enough. We are never going to break out of the cycle we are in until we do it. You have a right to ask us to share the responsibility for the hard decisions, and when you get ready for us to do that, ring the bell and well will be back.

Mr. JENKINS. I think that is responsible and I thank you very much.

I congratulate each of you for balancing your budgets. You have issued bonds like my State does maybe for highways or schools.

Governor SUNUNU. There are some States who have no bonding authority.

Mr. JENKINS. Mine has considerable. I won't ask you how much each of you have that you might have borrowed through the bonding process but the point is that when we finance a carrier or an MX missile or whatever, the entire amount is in this year's budget and we don't have that luxury really.

Are the bond provisions in the new tax bill working?

Governor CLINTON. It depends on who you talk to, Congressman.

Governor THOMPSON. Without getting into details and attempting to speak for the Governors, I think there is very strong sentiment in the governors association that the public.

Mr. JENKINS. Well, my legislature is just offering a constitutional amendment on that particular issue. I did not know whether it was unique to my State.

Governor THOMPSON. Could I respond to what you said on the States' bonding power. Our State issues bonds, both general obligation debt and specialized debt for transportation and for other purposes. I understand that the current policy of the Federal Government is to do it the other way to finance it contemporaneously. Undoubtedly if you had an off-budget capital type of budget, the defi-

cit would be lower. It does seem to me that there still a significant difference between the States, even with those States that have bonding authority and the Federal Government. By lumping everything together, what we would regard as capital expenditures and noncapital operating expenditures, we are not faced with the hard choice that we are on the noncapital side of saying we either are willing to cut our expenditures or raise our taxes or both, because we can't take on debt for human service programs for education and things like that. By lumping them all together capital and noncapital and continuing to borrow for the whole you really are not put to the test, it seems to me.

Governor CLINTON. I do not want to get into this as a side issue in this committee but we did at one point ask the Governors Association a couple of years ago to endorse the concept the Federal budget probably should contain a capital budget so we can more rationally assess what the real current deficit is. Frankly, I think you may have done a better job than you get credit for in balancing your accounts is you did have a capital budget. Now, I know there are all kinds of problems with doing it for you, but just for whatever it is worth, we supported that position for you.

Mr. FORD [presiding]. Mr. Levin.

Mr. LEVIN. Let me yield to Mrs. Kennelly. She was here before me.

Mr. FORD. The Chair has looked up to Mrs. Kennelly and I have to say she is much more attractive than you are. She serves on the Public Assistance Subcommittee and the Chair will recognize Mrs. Kennelly of Connecticut at this point.

Mrs. KENNELLY. Thank you, Mr. Chairman. The chairman and I tend to work very closely on this bill. We are now having the lights and the attention and all the rest. That is going to go and we are going to get down to work on this. I thank you Governors for coming here today.

I really want to congratulate you because you did personally get the President to agree to the contract section of your proposal and we are going to remember that. However, if you got him to agree to the family living standard we would be having a party now and carrying you out to your planes on chair sofas. But in all seriousness, you have done a great service for us this week. We have watched the record very carefully up until now and we were looking at model programs for a certain number of years which was not acceptable to any of us. We know people like Mr. Hobbs are true believers. We know that there are people you met with that you convinced who did not believe before this week. I think the rhetoric is much better and I appreciate that as a member of a committee that intends to do something. Governors, there is just one question. Governor Castle said the bottom line of the President was no additional funding. I do not understand what that bottom line was. Was that including your new position on savings over the years or is it in our regular budget figures now?

Governor CASTLE. That was my assumption rather than something he said. Governor Clinton may have a different recollection of that.

I feel the position of the White House initially, as you know, has been one they don't think additional money was needed. That was

just the general philosophy in which they went into this rather than a statement. This is more an assumed reaction than any knowledge I have or anything that has been said publicly or privately, that they feel committed enough to the basic concept that we have talked about, not getting into the reform of income assistance per se, but the aspect of the contract and the work and training or remedial education, whatever is needed, day care; that the commitment up front or that might be something that would interest them more in terms of an initial commitment to do something else. They may also say but we think we can look into the program, all the programs, and find other ways of saving the money that would pay for that or look at other programs, whatever it may be, I guess defense excepted, if I had to guess, but that is more of a guess than anything else, and look at it from that point of view. I would just tell you if I had to convey one message to you, I believe the White House is very interested in getting this done and if nothing else, that gives us the flexibility to work with them in order to accomplish it. How you work out all the dollars, knowing their feelings on it, is something I cannot speak to directly based on what they have indicated. I did not feel that they would endorse a major reform of income assistance to life those levels much higher with the budget problems that exist.

Mrs. KENNELLY. Speaker Wright said if we had a revenue neutral approach it is not worth giving all the time to it that some of us plan to give to it.

Tomorrow, Mr. Matsui and I are planning to drop the American Public Welfare Association bill which is really the result of their study and these are your commissioners across the board who have come up with this and it's one child in four poor and all the things we know. I would urge you and Governor Clinton I would urge you as chairman to encourage your membership to allow their commissioners to continue to work with us. None of us could have gotten to where we are. If you did not have our WIN money you could not have done the demo programs and without your demo programs, we would not be here today saying yes we can do it. So I hope we keep this relationship. You have those commissioners who are on site and I urge you to encourage them to work with us, as I know they will, and now we are not as bipartisan as we could be, but I also urge bipartisan approach by the Governors. I see you, all of you, joining arms together in this venture because you know we have to do it and we want to be the same way and we want to work in a bipartisan fashion. That piece on child support legislation is something I was very active on, and I worked with one of your new Governors, Carroll Campbell, and we worked very closely and now we can move that in with welfare reform. We are all excited and I hope we keep up our partnership and keep communicating because we have a long way to go, but you helped us this week and I appreciate it.

Governor CLINTON. We are very excited, too, about the work done by the Public Welfare Association. My commissioner is here and was one of the people instrumental in drawing up the proposed bill. And we will certainly encourage them to continue working with you.

I will say for the benefit of the members of the committee and I should have said it when more were here, when we ran into a little bit of trouble with some of the details with this proposal with some of the Republican Governors, now Governor Campbell was one of the most instrumental persons in getting a virtually unanimous vote. He basically said I learned about this issue when I had that job on the Ways and Means Committee and we need to do it and he was very helpful to us today.

Mr. FORD. Mr. Levin.

Mr. LEVIN. Clearly, we are going to go beyond more demonstrations. The tempo has picked up and I think that is all to the good. Let me just say a few words on the substance of it. You have covered the training and education components, the support services and you have emphasized how they have to be linked, even going beyond the training period into a transition period. I think it was you, Governor Castle, who mentioned about performance standards and maybe it was Governor Sununu; in the bill we introduced last year and we will reintroduce this year, I think you will find adequate flexibility within the performance standards so they will have some meaning.

It is my personal feeling that you are being realistic about the costs, that we are talking about on a full-year basis a billion dollars if one includes the Medicaid component as well as child care, transportation and the training and education components on a 70 to 30 or 50 to 50 basis depending on what part we are talking about.

Let me finish by saying one last word, especially since the chair of the committee at this point is the distinguished chairman of the subcommittee.

I just want to comment briefly on what happened today in terms of the income component. It is my own hunch. I favor comprehensive reform. It is my hunch that the welfare work linkage will become the leading edge of it. But it is one thing though to say it would be the leading edge and that may not be the decision of the subcommittee. It faces that very issue as does Senator Moynihan. It is one thing to say that might be the leading edge. It is another thing to say the income support part of it has to await savings for a couple of reasons. First of all, the training, retraining and support services part may cost more than a billion dollars a year. Success may go beyond our expectations. We have built our proposal on your success, and I think you are finding that your success tends to become somewhat geometrical.

Second, there is a great deal of debate over when savings occur and how much they are and how much you calculate. I just suggest to you maybe it was in the heat of the moment but I would hope that you would think further on it.

If reform has to come sequentially and I think there is an argument that it does, I do not think it necessarily means that the income portion of it, and we know AFDC benefits have slipped, has to be governed by strict fiscal neutrality.

I don't see the sense necessarily in that sequence, or the fairness in that sequence.

Governor CLINTON. If I might respond to that. We have always been super sensitive, at least in the last 5 or 6 years of budget difficulties. We have been super sensitive about coming up here and

trying to load your wagon. I think we worded this in the way we did to frankly acknowledge that you have to spend some money on the front end to get the results you want, to be honest conceptually about the way we would like to see the system look when it is in place and to defer to you and your budget problems and your responsibility to reduce the deficit just as much as we possibly could. If you decide on your own to make a different judgment about how to do what funding when, and Mr. Ford and I had a talk about it earlier, That is obviously your business. We did not think that it was our business to burden you any more than we absolutely had to get this thing started I believe that is what we said what we did.

Mr. LEVIN. Do you agree with that?

Governor CASTLE. I do. Maybe another way of looking at it is what we did rather than what we did not do. What we did was adopt a policy with 49 or perhaps 42 or so out of 43 Governors who were present, on the reform of welfare which had a provision in it for reform of income assistance which did, and you heard me read earlier into the record the part that pertains to the income support and the fact that we think there should be a family living standard and the states should across the board to whatever degree live up to it and endorse some of the programs that we have heard about here today. But then everything stopped short, and some people who might not ordinarily support that did support it but some people stopped short and indicated they did not feel we should ask for the funding at this time and it should be tied into the funding of what we are going to save on the other program, but at least there is a recognition in that the Governors are not just saying that should be abandoned all together. Leave it up to the States completely, set whatever standards there are and that should be it. We recognize that some States have greater problems than others. We think there should be regional cost of living differences and you probably embrace that yourself, if I had to guess. But, nonetheless, that is there, and I suppose if Congress decided to do that the governors would not come running down here en masse. Some might but some would not and say do not do it. It is just where they think the priorities are. They thought the priorities were in the other area. There was already some new money in that other area, and that was it as far as that was concerned.

I might also add on the performance standards you mentioned earlier, I personally have no problem with that and I think you should do it. I just remembered some of the time and money and effort we put into error sanctions on these various programs and such. One thing I ask is we all work together to set up some kind of measuring rod that is totally workable and will not consume our money in doing that.

Mr. LEVIN. The performance standards as we wrote it has some incentives tied into them. I mention this point not in a critical way because I really think you have helped to change the momentum of this debate, and my hunch is we will have to clear away the welfare work linkage before we can go on to the other. Thank you, Mr. Chairman.

Mr. FORD. Mr. Moody.

Mr. MOODY. Thank you. So many good questions have been asked there are not that many that occur to me. I would ask about tar-

getting strategies. You know, for a contract that people strive for self-sufficiency in return for benefits, who are we going to determine efficiently and effectively and accurately who needs remedial education, how needs long term training, who needs this, who needs that.

How do you sort these people out without a lot of retail as well as a wholesale examination.

Governor CLINTON. There is a lot of retail examination that has to be done. Every person will have a different situation. That is why we called for the casework management system which is the fundamental difference in the way that virtually every State does it now.

Governor CASTLE. That is a very interesting question you have asked because there are so many aspects to it. We think there should be a contract which is pretty open ended, what could go into that contract, because some quite candidly need incredible help. They never have been out of their neighborhoods. They have no concept of how to count money, how to do anything. They are babes in the woods.

Mr. MOODY. We know that in the Job Corps. The Job Corps experienced a tremendous amount of what people needed.

Governor CASTLE. Precisely. I was amazed in going to one of our training sessions and we had contracted out to service organizations and different service centers were providing it. In one of them I was running into people who were high school graduates who had been on welfare all their lives because of having a child at a young age or whatever, perfectly capable of working with very little training once they were given the opportunity to do so; others who could not sit still. I mean they literally moved their hands around. They had all those problems. So you are right: there is a terrific variance in what we are dealing with there and that is something I think if we get into a contract and a caseworker system we can breakdown and analyze it and hopefully solve it in some way.

Mr. MOODY. What are the fiscal implications for that kind of retail versus wholesale examination. The case work approach is very expensive.

Governor CASTLE. That is part of the cost factor that we have in the program. The caseworkers is one of the major aspects of the half a billion dollars we talked about earlier along with the child care which would be needed for obviously mothers with very young children. That is vital. A lot of States are doing it now. You basically hire employees or enter into a contract with somebody and they come in and look at the circumstances and they start to make the decision. Once you get the people there and have them 8 hours a day you make your own decisions as to how well you can train them. Some you can teach to type extraordinarily well and go off and get probably a fairly well paying job. Others, it is just a little bit of a slower process and you sort of tailor your program to them. It varies. Our costs in some of the programs are \$800. Governor Dukakis talked about \$2,500 today. That is an average when you look at all the people is what it really amounts to. So you really do have to structure by your contract and by the people once they come in and go from there. There are some expenses attached to it.

Mr. MOODY. What about the unemployed parents? Half the States do not have that program. Mine does. Do you think that should be mandatory, that the UP component be added?

Governor CASTLE. The way we handled it and the way we have it in Delaware, the way we handle it today was that it fell into the reform of the income assistance; I have no particular feelings about it as it exists today. We have not asked for any additional funding. There is opposition to that. I think Governor Orr is going through a problem with that right now, with this legislature, for example, and there is some opposition to it. I do not think you would get any unanimity out of the Governors on that particular program today.

Mr. MOODY. I notice that the 3-year-old child is the cut off. A child can be 4. I mean, we have a lot of mothers who are not on any sort of public assistance of any kind that recognize they have to spend quite a lot of time with that child in order to assure an adequate development of that child, part-time, flex time. Do you see a component of this that would allow for flex time, part time, what have you, as an adequate half of the contract if children are still small but maybe over 3?

Governor CASTLE. Absolutely. I mean, there are some cases in which the mother best serves the society at large by being there with the child for various reasons, a handicapped child, whatever it may be. I believe New Jersey has already started this program using 2 years of age as a cutoff date. Either they are doing it or they are talking about doing it and states may vary on that, but that is why you have a contract and the caseworker, to give you the flexibility in those circumstances so that you can adapt.

Mr. MOODY. Thank you very much, Mr. Chairman.

Mr. FORD. Mr. Guarini is here.

Mr. GUARINI. I have no questions except to thank the Governors. I will have to read the record. I am sure Governor Clinton and Governor Castle would prefer that I do that. I was stuck in a budget meeting which was most important and I hope you will excuse me and I thank you for being here.

Governor CLINTON. If you balance the budget we will excuse you. The only way we can balance the budget would be to throw all the work back on the States and local governments.

Mr. FORD. This will conclude our business but as chairman of the Public Assistance Subcommittee and as acting chairman of this committee right now, I would like to leave the record open for 5 days for some additional concerns that might be raised by members of the committee on certain issues already proposed with the Governors' Association proposal. I would like to have an opportunity myself to send a list of those concerns to you and the association and maybe you can respond back to the full committee. I would just like to personally thank you, Governor Clinton and Governor Castle, for being so concerned about the issue of welfare reform and convincing your colleagues in the association and also in spending time with us today. We surely know we are going to spend some time and we know if there are concerns that will come up over the next 2 or 3 months for a welfare reform package, I am sure the door will remain open for you and other Governors. We thank you for the partnership we are about to enter into on wel-

fare reform. I look forward to working with all of the Governors in the coming weeks to mark up a welfare reform package.

That will conclude the business of the full committee on Ways and Means and the committee stands adjourned.

[Whereupon, at 4:32 p.m., the hearing was adjourned.]

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